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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER APRIL 3, 2009
ISSUE

PRETORIA 00000658 001.2 OF 003

¶1. (U) Summary. This is Volume 9, issue 14 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Manufacturing Activity Slumps to Record Low
- Vehicle Sales, Exports Continue to Plummet
- South Africa Must Try to Save 'Distressed' Sectors - BUSA
- Zuma Promises Smooth Transition; SARB, BEE to Remain the Same
- Dramatic Reversal in Trade Gap
- Revamped OR Tambo Can Handle 25 Million Visitors
- ArcelorMittal SA Cuts Prices Again
- Eskom to Apply for 34% Tariff Increase
- South Africa's Environmental Protection Vessel Patrols East African Coast

End Summary.

Manufacturing Activity
Slumps to Record Low

¶2. (U) The Investec Purchasing Managers' Index (PMI) decreased from 39.2 points in February to 36 points in March, a record low. Manufacturing has been hit hard by the global downturn, with a severe recession in most of South Africa's main trading partners eroding demand for local exports. Analysts believe the sector's woes led to another fall in output during the first quarter of this year. The Bureau for Economic Research (BER), which conducts the PMI survey, is revising down its forecasts for the economy this year after projecting a contraction of 0.5% last month. "At this stage it seems like we will be going lower with our forecast for this year for a fall of between 0.5% and 0.7%," BER economist Christelle Grobler predicted. All five of South Africa's biggest banks are predicting the economy will shrink this year. A shrinking economy means the government's huge infrastructure spending program is unlikely to be enough to compensate for the slowdown in consumer spending and exports. (Business Day, April 2, 2009)

Vehicle Sales, Exports Continue to Plummet

13. (U) New vehicle sales in South Africa continued its downward spiral in March, declining by 30.3%. These figures confirmed "the depressed and increasingly desperate state of the domestic market," commented an official from the National Association of Automobile Manufacturers of South Africa (NAAMSA). Passenger car sales fell 24.9% in March, reaching the lowest level for March in the past six years. Light-commercial vehicle and medium and heavy truck sales also dropped, suggesting a downturn in investment spending by the private sector. Exports of South African manufactured motor vehicles also declined. Mercedes-Benz exports its C-Class sedan to the U.S. The C-Class was Mercedes-Benz USA's top seller in March, but sales of the C-Class were down 30% on a year-to-date basis compared with 2008. The softening market in the U.S. had lead to extended shutdown periods at Mercedes' East London plant. (Engineering News, April 2, 2009)

South Africa Must Try to Save
'Distressed' Sectors - BUSA

14. (U) Business Unity South Africa (BUSA) warned the South African government that it should do everything in its power to rescue "distressed" sectors of the economy to prevent "huge" job losses. The economy may grow this year despite the global recession, QThe economy may grow this year despite the global recession, according to BUSA, but growth would require speedy implementation of planned support measures. Concern is mounting about the fallout from the global financial crisis and a cyclical slowdown in the domestic economy. Finance Minister Trevor Manuel has lambasted a proposed bail-out for the beleaguered motor industry, saying the focus should be on jobs. Analysts have predicted the economy could shed 250,000 jobs this year. Mining and manufacturing, particularly the vehicle industry, have been hit hardest. (Business Day March 31, 2009)

PRETORIA 00000658 002.2 OF 003

Zuma Promises Smooth Transition;
SARB, BEE to Remain the Same

15. (U) ANC President Jacob Zuma has promised a "smooth transition" after a new administration takes office in May. Speaking at a business breakfast in Johannesburg, Zuma said that underperforming ministers would be removed from office, some cabinet departments would be split, and a planning commission would be established in the Presidency to oversee policy. Responding to a question on the mandate of the South African Reserve Bank, Zuma said: "The role of the Reserve Bank will continue to be the same. The Bank has been doing very well. I don't think it will change." While acknowledging flaws in the implementation of affirmative action, Zuma said he saw no need for a "sunset clause" for black employment targets. (Business Day, April 1, 2009)

Dramatic Reversal in Trade Gap

16. (U) South African Revenue Service (SARS) trade data showed that South Africa's trade deficit narrowed from R17.4 billion (\$1.8 billion) in January to R571 million (\$61 million) in February. Exports increased by 21.5% month-on-month (m/m) in February, driven by a brief, seasonal uptick in vehicle exports and a rebound in precious metals, and stones. Imports decreased 17% m/m, fueled by a plunge in machinery and electrical appliances, while lower oil prices also cut the value of mineral imports. Exports decreased by 6% compared with the same month last year, while imports plunged 15.4%. The deficit on South Africa's current account is likely to narrow from 7.4% in 2008 to less than 6% of gross domestic product (GDP) this year. Exports are expected to decline more than imports during the course of the year. (Business Day, April 1, 2009)

Revamped OR Tambo Can Handle

¶7. (U) OR Tambo International Airport has opened a combined domestic and international departures hall and launched a state-of-the-art baggage handling system. The new facilities would easily accommodate up to 25 million visitors each year - including the expected 400,000 Soccer World Cup fans - that the Airports Company SA (ACSA) expects to pass through the airport next year. Only 18 million visitors passed through the airport in 2008, down 5% from the previous year. The baggage handling system allows ACSA to handle up to 8,000 bags per hour, more than doubling its previous capacity. The integrated system will now handle both domestic and international baggage and boasts the ability to track bags throughout the airport. OR Tambo is close to being construction-free. The new international arrivals hall is scheduled to open in May. (Business Day, April 2, 2009)

ArcelorMittal SA Cuts Prices Again

¶8. (U) Steel giant ArcelorMittal South Africa notified its customers that beginning on April 1 steel prices would fall between 5% and 8%. These cuts were over and above the average 40% price reduction that had been implemented since domestic steel prices peaked in August 2008. ArcelorMittal sets its domestic selling prices using a pricing model that includes a basket of domestic prices in a range of markets around the world. The price decline coincided with the release of the group's annual report, in which the company expressed uncertainty about markets, demand, pricing, and the future economic landscape. ArcelorMittal took the unprecedented step of shutting 54% of its capacity during the fourth quarter of 2008, and sustained production cuts of about 35%. Second-largest South African steel producer Highveld Steel & Vanadium announced in mid-March that it would produce only on orders received, but put no figure on the extent to which production would be cut during 2009. (Engineering News, April 1, 2009)

PRETORIA 00000658 003.2 OF 003

Eskom to Apply for 34%
Tariff Increase

¶9. (U) State-owned utility Eskom is likely to apply to the National Energy Regulator of South Africa (NERSA) for a 34% increase in electricity tariffs for the coming year. The 34% increase would be used to cover operating costs rather than the cost of Eskom's build program. Eskom's board is due to meet this week on its application for the increase, which was supposed to have been submitted to NERSA in October 2008. NERSA must hold public hearings before deciding on the next tariff determination. Eskom is seeking a price for electricity that would recover the full operating cost of providing it, noted Eskom chairperson Bobby Godsell. "We think that is important, not only for Eskom itself, but also to allow independent power producers to produce electricity and co-generators to sell in the market at a realistic price. (Mail & Guardian, March 30, 2009)

South Africa's Environmental Protection
Vessel Patrols East African Coast

¶10. (U) South Africa's environmental protection vessel, the Sarah Baartman, returned to Cape Town yesterday after a 31-day patrol along the east African coast. Fisheries inspectors from South Africa, Tanzania, Kenya, and Mozambique were on board; they arrested six vessels and inspected more than 40 others within Southern African Development Community (SADC) territorial waters. The patrol was aimed at "improving and strengthening fisheries surveillance and law enforcement within the SADC region," according to the Department

of Environmental Affairs. In waters off Tanzania the inspectors chased a fishing boat because it ignored calls to allow inspectors to board. More than 290 tons of blue fin tuna was found onboard the vessel, which did not have a legitimate fishing permit or license. The vessel and crew were arrested. Other arrests included two South African hake vessels off Mossel Bay, and a prawn fishing boat off Mozambique which was illegally fishing in a restricted zone. (Pretoria News, March 27, 2009)